

Montana VEBA HRA Summary of Benefits

A tax-free health reimbursement arrangement for Montana **public employees (State, City, County, K-12 or University)**

☐ \$300,000 Growing Cost

Public retirees everywhere struggle to cope with the soaring cost of post-employment healthcare. The average public employee and spouse retiring today at age 60 will likely spend **over \$300,000 of their own money** in out-of-pocket healthcare expenses and premiums during their retirement years.

☐ Your best source of help

Montana VEBA HRA is a **tax-free** health reimbursement account (HRA), or as technically defined by the IRS, a health reimbursement arrangement (HRA). Your Montana VEBA HRA account can be used to pay or reimburse qualified out-of-pocket healthcare costs and premiums for yourself, your spouse, and your tax-qualified dependents.

☐ What does “tax-free” really mean?

Unlike your **tax-deferred** investments (IRAs, 457s, etc.) where contributions are subject to Social Security and Medicare taxes, and the payment of state and federal income taxes are merely postponed until you make withdrawals, your Montana VEBA HRA account is **exempt** from all of these taxes. **All contributions, earnings and withdrawals are 100% tax-free!** You could save up to \$400 or more in taxes for every \$1,000 contributed to the Montana VEBA HRA plan.

☐ Tax-free Contributions

Tax-free funding of a Montana VEBA HRA account is primarily provided by sick leave cash-outs. Sick leave is converted at the rate of 25% of your accumulated sick leave balance at retirement times your hourly salary. Accumulated annual leave is another possible contribution source. If the group votes to include accumulated annual leave as a contribution source, it is converted at the rate of 100%. Other contribution sources may be permissible if attainable by all group members.

| Example A: Lump Sum Cash-Outs | | | | |
|--|-----------------|----------------------|---------------|------------|
| | Cash Out Amount | 35% Est Income Taxes | 7.65 FICA Tax | Net Amount |
| Taxable Wages | \$10,000 | <\$3,500> | <\$765> | \$5,735 |
| VEBA HRA Contribution | \$10,000 | n/a | n/a | \$10,000 |
| Total Savings¹ = \$4,265 | | | | |

¹ Tax savings are approximate.

☐ Tax-free Investments

Your Montana VEBA HRA plan offers a choice of ten investment funds. You can self-direct the investment of your account funds into one or a combination of these funds. You can change your investment fund allocation as often as once a month.

☐ Group Adoption

Your employer must adopt the Montana VEBA HRA in order for you and your co-workers to establish a group within the Montana VEBA HRA. After your employer becomes a participating employer in the Montana VEBA HRA, your employer can help interested employees conduct a group vote to form a new group, change an existing group structure and contribution sources, or disband a group. Contact your human resources/benefits department to discuss group formation/annual renewals.

☐ Becoming a Participant

When your employee group votes to form a Montana VEBA HRA group, you become a member of the group. All eligible employee group members must participate per IRC rules. When you retire and/or separate from service, an account is established for you and you become a participant. You will be asked to complete an Enrollment Form and submit it to your human resources/benefits department.

☐ Tax-free Withdrawals

After you become a Participant, you can file claims to pay or receive reimbursement of qualified out-of-pocket healthcare expenses and premiums at any time. Qualified healthcare expenses and premiums cannot be reimbursed from any other source. It's easy to file a claim. Claims are paid weekly by the third-party administrator, REHN & ASSOCIATES.

☐ Survivor Benefit

If you die before your account funds have been exhausted, any remaining funds in your account may continue to be used by your surviving legal spouse and tax-qualified dependents to reimburse the qualified health care expenses and premiums incurred by you before your death or by your spouse or tax-qualified dependents. If there are no eligible survivors, funds will be forfeited and redistributed pro rata among active participant accounts.

☐ More Information

To learn more, contact State of Montana Department of Administration at (406) 444-3745 or visit www.montanaveba.org or www.montana.rehnonline.com.